

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 NEA-10 JUSE-00 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

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XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

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E.O. 11652: N/A

TAGS: ETRD, XF, CA

SUBJ: ARAB BOYCOTT

REF: (A) OTTAWA 1134; (B) OTTAWA A-77, MAR 12, 1976

BEGIN UNCLASSIFIED

1. SUMMARY: GLOBE AND MAIL OF AUGUST 6, UNDER FRONT-PAGE BANNER HEADLINE "PRO-ISRAEL LOBBY EXAGGERATES HARM OF ARAB BOYCOTT, CABINET IS TOLD," CARRIED STORY OF "SECRET CABINET MEMORANDUM" ADVISING THAT BOYCOTT DOES NOT APPEAR TO DISCRIMINATE AGAINST JEWISH RACE OR RELIGION AND LISTING OPTIONS FOR GOC IN OPPOSING BOYCOTT. END SUMMARY.

2. NEWS ARTICLE, UNDER BYLINE OF JOHN KING, REPORTED THAT RECENT CABINET MEMORANDUM OBTAINED BY GLOBE AND MAIL DOWNPLAYS ADVERSE AFFECT OF ARAB BOYCOTT ON CANADIAN COMPANIES, SETS OUT FOUR OPTIONS FOR GOC TO CONSIDER ON BOYCOTT, AND WARNS THAT IF CANADA TAKES  
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ACTION AGAINST BOYCOTT, WITHOUT SIMILAR ACTIONS BY

OTHER WESTERN COUNTRIES, "TOO STRONG A STAND WOULD PROBABLY PROVOKE THE ARAB STATES AND SERIOUSLY UNDERMINE CANADIAN TRADE AND ECONOMIC ACTIVITIES THERE."

3. OPTIONS IN MEMORANDUM, ACCORDING TO NEWSPAPER, IN DESCENDING ORDER OF SEVERITY, WERE:

A. PROHIBITING CANADIAN FIRMS FROM ADHERING TO BOYCOTT IMPOSED BY FOREIGN COUNTRIES AGAINST THIRD COUNTRIES.

B. FORBIDDING GOVERNMENT SUPPORT TO ANY PROJECT REQUIRING CANADIANS TO COMPLY WITH FOREIGN COUNTRIES BOYCOTT OF THIRD COUNTRY, CONDEMNING ECONOMIC BOYCOTTS AND OBLIGING CANADIAN COMPANIES TO REPORT INSTANCES OF BEING ASKED TO COMPLY WITH BOYCOTTS.

C. FORBIDDING GOVERNMENT SUPPORT TO PROJECTS REQUIRING COMPLIANCE WITH BOYCOTT, CONDEMNING BOYCOTTS AND OBLIGATING FIRMS TO REPORT INSTANCES OF BEING ASKED TO COMPLY WITH BOYCOTTS, BUT ONLY BOYCOTTS FOUND TO DISCRIMINATE AGAINST CANADIAN CITIZENS OR FIRMS ON BASIS OF RACE, COLOR, RELIGION, SEX OR NATIONAL ORIGIN.

D. FORBIDDING GOVERNMENT SUPPORT OF CONTRACTS CONTAINING PROVISIONS DISCRIMINATING AGAINST A RACE, RELIGION OR ETHNIC GROUPS, AND ISSUING STATEMENT REAFFIRMING ITS POLICY OF TRADING IN PEACEFUL GOODS WITH ALL COUNTRIES AND REAFFIRMING THAT IN CANADA'S ECONOMIC SYSTEM CHOOSING TRADING PARTNERS AND CONTRACT TERMS IS GENERALLY RESPONSIBILITY OF INDIVIDUAL PRIVATE FIRMS.

4. FOR EACH OPTION GIVEN, POSSIBLE CONSEQUENCES ARE ALSO PUT FORWARD: E.G., FOR A. ABOVE CONSEQUENCES WOULD BE REDUCTION IN CANADIAN INFLUENCE IN ARAB WORLD, DIMINISHING OF VALUE OF CANADIAN EFFORTS TOWARD SOLUTION OF MIDDLE EAST LIMITED OFFICIAL USE

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DISPUTE, AND SERIOUS NEGATIVE EFFECT IF TRADE IS RESTRICTED AND ARAB OIL CUT OFF. (MEMORANDUM REPORTEDLY POINTS OUT THAT CANADA "COULD STAND TO LOSE MULTI-MILLION DOLLAR MARKET - PRODUCT EXPORTS AMOUNTED TO APPROXIMATELY \$163 MILLION IN 1975 - AND AN IMPORTANT SOURCE OF CRUDE OIL - APPROXIMATELY 40 PERCENT OF CANADA'S OIL IMPORTS WERE FROM THE ARAB WORLD IN 1975.")

5. USG POLICIES GIVEN PROMINENT PLACE IN MEMO, AND, ACCORDING TO NEWSPAPER, MEMO STATES THAT UNITED STATES IS HAVING SERIOUS DOUBTS ABOUT ITS ANTI-BOYCOTT LEGISLATION BECAUSE THE ARABS HAVE DIRECTED BANKING BUSINESS AND CONTRACTS TO CANADIAN FIRMS. "TO ADOPT THE USA POSITION," MEMO REPORTEDLY SAYS, "BECAUSE IT WOULD IN ESSENCE FORBID ALL (CANADIAN) GOVERNMENT ASSISTANCE WHERE THE POSSIBILITY OF A TRADE-RESTRICTIVE CLAUSE EXISTS, WOULD COMPLETELY DISRUPT OUR TRADE DEVELOPMENT WITH THE ARAB WORLD..." "WHILE USA POLICY CHANGES DO NOT APPEAR YET TO HAVE SEVERELY AFFECTED THEIR TRADE WITH THE MIDDLE EAST, THE SAME WOULD NOT NECESSARILY BE TRUE OF MORE VULNERABLE COUNTRIES LIKE CANADA."

6. ALTHOUGH NO MENTION IS MADE IN GLOBE AND MAIL STORY OF WHO WROTE MEMO, PRESUMABLY IT WAS ITC WHICH HAS BEEN PREPARING STUDY ON POLICY OPTIONS. HOWEVER, ARTICLE STATES THAT "CANADA'S EXPORT DEVELOPMENT CORPORATION, THE GOVERNMENT AGENCY THAT LENDS MONEY TO FOREIGN BUYERS AND INSURES CANADIAN INVESTMENTS IN FOREIGN COUNTRIES, WILL REFUSE SUPPORT FOR CONTRACTS INCLUDING BOYCOTT CLAUSES PENDING A CABINET DECISION, THE MEMO SAYS."

7. EMBASSY POUCHING COPY OF NEWS STORY TO EB/ITP/OT.  
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8. COMMENT: AS EMBASSY REPORTED IN REF AIR (B), GOC HAS PROCRASTINATED ON ISSUING BOYCOTT POLICY  
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FOR MONTHS. ITC OFFICIAL WITH WHOM EMBOFF SPOKE IN MARCH (REF TEL A), HOPED GOC WOULD NOT FOLLOW U.S. EXAMPLE AND TOLD OF MANY INSTANCES IN WHICH ARAB BUSINESS HAD BEEN SHIFTED TO CANADIAN SUBSIDIARIES OF U.S. COMPANIES AFTER USG ANTI-BOYCOTT MEASURES ADOPTED.

9. GOC IS SOMEWHAT LUCKY THAT STORY ON CABINET MEMO BROKE WHILE PARLIAMENT NOT IN SESSION AND DOES NOT NOW HAVE TO FACE STIFF OPPOSITION QUESTIONING AND CRITICISM. HOWEVER, MP HERB GRAY, WHO HAS BEEN STRONGEST CRITIC OF GOC IN ACTION ON MATTER, CAN BE EXPECTED TO RENEW HIS ATTACKS, AND ARTICLE MAY PRODUCE INTO ACTION MORE THAN HANDFUL OF MP'S AND OTHER PUBLIC GROUPS WHO OPPOSED BOYCOTT IN PAST. PARTICULARLY

DAMAGING ARE MEMO'S REPORTED CONCLUSIONS THAT PRO-  
ISRAEL LOBBY EXAGGERATES BOYCOTT'S HARM AND THE  
EMPHASIS ON CANADA'S POSSIBLE LOSS OF NEWLY DEVELOPING  
BUSINESS IN ARAB WORLD. LATTER POINT MAY BE PICKED  
UP BY THOSE CRITICS OF GOC FOREIGN POLICY WHO  
MAINTAIN TRUDEAU GOVERNMENT IS MORALISTIC IN ITS  
INTERNATIONAL RELATIONS ONLY WHEN SUCH POSTURING  
DOESN'T COST CANADIAN DOLLARS.  
ENDERS

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